



Fiscal 2006 was the initial year of RIETI's second Mid-term Plan, which runs for five years. We are committed to improving on the achievements of the first such plan and hope that we can continue to count on your support and advice.

This Annual Report explains the second Mid-term Plan to be accomplished for five years and reviews our activities in fiscal 2006 in accordance with the plan.

The second Mid-term Plan is best characterized by four research themes set by METI as Major Policy Research Domains: 1) Maintaining Economic Dynamism under the Adverse Demographic Conditions of Low Fertility and Aging Population; 2) Promoting Innovation and Strengthening International Competitiveness; 3) Formulating Japan's Strategy in Response to Globalization and Deepening Economic Interdependence in Asia; 4) Compilation of the History of Japan's Trade and Industry Policy Primarily of the 1980s and 1990s. In this report, research projects carried out in fiscal 2006 and their results are organized in line with these four domains. Distinguished experts have been appointed as Research Counselors for the above 1) to 3) and as Editor in Chief for 4), and several discussion fora were organized for each research project through symposia and workshops. We have endeavored to develop a research framework that benefits from the advantages peculiar to being an independent administrative agency. We also are working vigorously on research in Adjacent Basic Research Areas, which RIETI sets independently, concurrently with the Major Policy Research Domains.

RIETI is characterized by its collaboration with the academic sector, based on active interaction among policy authorities. To take better advantage of this feature, we will be focusing on international exchange during the new Mid-term Plan period. Fiscal 2006 saw some new developments, including the conclusion of a memorandum of understanding for cooperation with the Development Research Center of the State Council (DRC), China. Continuing to capitalize on our accomplishments to date, we will also be taking steps to build international networks.

A number of new initiatives are underway in disseminating research results. We believe symposia have accomplished the initial goal for fiscal 2006. We have also made significant improvements in our public relations activities including revising and expanding our website and launching a series of informational pamphlets explaining our research.

Starting with fiscal 2007, the second year of the second Mid-term Plan, we need to considerably enhance what we created in the first year. I hope that this report will encourage your understanding of and support for RIETI.

May 2007

**Kozo OIKAWA**  
Chairman



Now Japan's "lost decade" has passed, the Japanese economy is finally in a position to comprehensively tackle the issue of population aging. Meanwhile, the population decline is emerging as a reality that poses a very long-lasting and serious issue. The New Economic Growth Strategy formulated by the Japanese government defines further improvement in productivity as a major challenge. In this environment, RIETI's second five-year Mid-term Plan was launched in fiscal 2006.

Our research during the second phase will center primarily on improving productivity and jointly prospering from Asia's dynamic and rapid economic progress in the interest of exploring new opportunities for growth. The key concept is likely to be innovation; increasingly regarded as a primary goal for all industries, companies, universities, and other such organizations. To research these areas and to consider the policy implications, it is critical to enlist a diverse array of experts to systematically examine research themes, gather and structure essential data, and form networks of researchers, including those based overseas. This is the approach we took in moving ahead with our work in fiscal 2006. Although there remains much to do, we believe that RIETI is the ideal body for carrying out inter-organizational research such as this. It is our intention to fully leverage this strength in the future as we continue to build an even stronger research structure.

The 21st century has been called the knowledge age. Human resources are required in every area and intangible assets are of growing value. Both academic studies and policies must keep pace with this change. We will bring fresh thinking to our work, so that we can contribute to the development of economic and industrial policies for Japan in this new era.

May 2007

**Masahisa FUJITA**  
President & Chief Research Officer